

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The accompanying summary of the City of Franklin's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be reviewed as an integral part of the accompanying financial statements. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. A summary of the significant accounting policies follows:

#### **A. REPORTING ENTITY**

This report includes all of the funds of the City of Franklin. The reporting entity for the City consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. This report does not contain any discretely presented component units.

#### **Blended Component Unit**

The Community Development Authority (Authority) was created by the City in 1992 to serve as a financing vehicle for a certain Tax Incremental Financing (TIF) development within the City. The Authority is governed by a seven member board appointed by the Mayor and confirmed by the Common Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to finance and manage certain TIF development projects for the benefit of the City and its citizens. The Authority's operations are included in the governmental activities of the government-wide financial statements and in a TIF District capital projects fund. The Authority follows the accounting policies of the City. Separate financial statements are not published for the Authority.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

##### **Government-Wide Financial Statements**

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business type activities. Governmental activities generally are financed through taxes, intergovernmental revenue and other nonexchange revenue. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services provided.

The statement of activities demonstrates the degree that direct expenses of a given segment or function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. The City does not allocate indirect expenses to functions in the statement of activities.

Program revenue includes 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenue are reported as general revenue. Internally dedicated resources are reported as general revenue rather than as program revenue.

##### **Fund Financial Statements**

Financial statements of the reporting entity are organized into funds with a fund considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, net assets/fund equity, revenue and expenditures/expenses.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds even though the latter is excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Funds are organized as major funds or non-major funds within the governmental and proprietary fund statements. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

- a. Total assets, liabilities, revenue, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. In addition, any other governmental or enterprise fund that the City believes is important to financial statement users may be reported as a major fund.

#### **Major Governmental Funds**

General Fund – accounts for the City's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – accounts for resource accumulation from taxes, special assessments and other revenue along with payments made for principal and interest on long-term debt other than enterprise fund debt.

TIF Districts Fund – A capital projects fund that accounts for resource accumulation from the tax increment and other revenue along with payments made for capital outlay, other expenditures, principal and interest on long-term debt obligations of the TIF Districts.

#### **Major Enterprise Funds**

Water Utility Fund – accounts for operations of providing water services to City residents and bills for those services.

Sanitary Sewer Fund – accounts for the operations of providing sanitary sewer services for City residents and bills for those services.

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

- a. Total assets, liabilities, revenue, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b. The same element of the individual governmental fund or enterprise fund that met the 10 percent test is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
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# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (continued)**

##### **Government-Wide Financial Statements (continued)**

The business-type activities follow all pronouncements of the Governmental Accounting Standards Board and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water utility and sanitary sewer fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

##### **Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recorded when it is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences and pension expenditures which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes are recorded the year levied as receivable and deferred revenue and are recognized as revenue the next year when services financed by the levy are provided.

Intergovernmental aids and grants are recognized as revenue in the period the City is entitled to the resources and the amounts are available. Amounts owed to the City that are not available are recorded as receivables and deferred revenue. Amounts received prior to the entitlement period are recorded as deferred revenue.

Special assessments levied for benefits to property owners for installation of sanitary sewers, water mains, roads, and other improvements are recorded as revenue when they become measurable and available. Annual installments due in future years are recorded as receivables and deferred revenue.

Revenue susceptible to accrual include property taxes, room taxes, public charges for services, permits and interest. Other general revenue such as fines and forfeitures, licenses and miscellaneous revenue are recognized when received or when measurable and available under the criteria mentioned above.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (continued)**

##### **Fund Financial Statements (continued)**

Deferred revenue is reported on the governmental funds balance sheet. Deferred revenue arises from taxes levied in the current year that are for subsequent year's operations. For governmental funds financial statements deferred revenue arises where potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Proprietary funds financial statements (other than agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting. Agency fund financial statements are reported using the accrual basis of accounting and do not have a measurement focus.

The enterprise funds follow all pronouncements of the Governmental Accounting Standards Board and have elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989. Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal operations. The principal operating revenue of the water and sanitary sewer funds are charges to customers for sales and services provided. The rates billed in the water utility are approved by the Public Service Commission. Sanitary sewer charges are billed at rates established by City policy based on the charges received from the Milwaukee Metropolitan Sewage District.

Operating expenses for proprietary funds include the cost of sales and services, administration and depreciation on capital assets. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

##### **All Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures/ expenses during the reporting period. Actual results could vary from those estimates.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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#### D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

##### 1. Cash and Investments

For purposes of the statement of cash flows, the City considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments of City funds are restricted by state statutes. Investments are limited to:

- a. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
- b. Bonds or securities of any county, City, drainage district, technical college district village, town or school district of the State of Wisconsin. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority.
- c. Bonds or securities issued or guaranteed by the federal government.
- d. The Local Government Investment Pool.
- e. Any security maturing in seven years or less and having the highest or second highest rating category assigned of a nationally recognized rating agency.
- f. Securities of an open-ended management investment company or investment trust subject to various conditions and investment options.
- g. Repurchase agreements with public depositories, with certain conditions.

The City's investment policy restricts allowable investments to investments that follow state statutes. In addition the investment policy:

- a. Requires a minimum rating of AA by both Moody's and Standard & Poor's.
- b. Limits an issuer or asset class to less than 10% of the market value of the portfolio with the exception of U.S. Government Treasury and Agency securities.
- c. Specifies a minimum amount of cash equivalents be maintained, an average life of the portfolio not exceeding 2 ½ years and no individual issue with a maturity exceeding 5 years at the date of purchase.
- d. Limits investments highly sensitive to market changes through its duration and diversification policies.
- e. Prohibits the investment in foreign owned securities.
- f. Limits derivative investments to those with a final maturity of seven years or less.

The City manages the various risks in its cash and investments as follows:

- a. Custodial credit risk – investments are held by trustee or third party custodian.
  - deposits in excess of FDIC insurance limits are maintained in either the State LGIP or collateralized accounts in amounts at least 75% of the average yearly balances

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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#### D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

##### 1. Cash and Investments (continued)

- b. Credit risk – securities purchased need to have a AA or better investment rating.
- c. Concentration of credit risk - issuer or asset class not to exceed 10% of the market value of the portfolio with the exception of U.S. securities.
- d. Interest rate risk – managed by limiting the length of maturity and the average life of the portfolio.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of City accounting funds is allocated based on average investment balances.

The Wisconsin Local Government Investment Pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw funds in total on one day's notice. At December 31, 2006, the fair value of the City's share of LGIP assets was substantially equal to the amount reported in these statements.

##### 2. Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the municipality, taxes are collected for and remitted to the state government, county government, local school districts, technical college district and metropolitan sewerage district. Taxes for all other governmental units billed in the current year for the succeeding year are reflected as receivables and due to other taxing units on the accompanying fiduciary funds statement of fiduciary net assets.

Property tax calendar – 2006 tax roll:

Lien date and levy date	December 2006
Tax bills mailed	December 2006
Payment in full, or	January 31, 2007
First installment due	January 31, 2007
Second installment due	March 31, 2007
Third installment due	May 31, 2007
Personal property taxes in full	January 31, 2007
Final tax settlement with County	August 15, 2007
Tax deed by County – 2006	
Delinquent real estate taxes	October 2009



# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)**

##### **2. Receivables (continued)**

Accounts receivable have been shown net of an allowance for uncollectible accounts. No provision for uncollectible accounts receivable has been made for enterprise funds because of their right by law to place delinquent bills on the tax roll.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds". Long term interfund loans (non-current portion) are reported as "advances from and to other funds". Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets. Any residual balances outstanding between the governmental activities and the proprietary activities are reported in the government-wide financial statements as "internal balances".

In the governmental fund financial statements, advances to other funds are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

##### **3. Inventories and Prepaid Items**

Governmental fund inventory items, except fuel inventory, are charged to expenditures when purchased. The fuel inventory is recorded at cost on a first in first out basis using the consumption method of accounting. Year end inventory was not significant. Proprietary fund inventories are generally used for construction and for operation and maintenance work. They are not for sale. Material and supplies on hand at year end are considered immaterial.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

##### **4. Restricted Assets**

Mandatory segregation of assets are presented as restricted assets. Such segregation is required by bond agreements and other external parties. Current liabilities payable from restricted assets are so classified. The excess of restricted assets over current liabilities will be used first for retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net assets.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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#### D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

##### 5. Capital Assets

###### Government-Wide Statements

Capital assets, which include property plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$1,000 for general capital assets and \$10,000 for infrastructure assets and an estimated useful life of three years or more. All capital assets are recorded at historical cost or at estimated historical cost if actual amounts are not available. Donated capital assets are recorded at their estimated fair value at the date of donation.

Prior to January 2003, infrastructure assets of governmental funds were not capitalized. Upon implementing GASB 34 governmental units are required to account for all capital assets, including infrastructure, in the government-wide statements prospectively from the date of implementation.

Retroactive reporting of all major general infrastructure assets is encouraged but not required until January 1, 2007 when GASB 34 requires the City to retroactively report all major general infrastructure assets acquired since January 1, 1980. As of December 31, 2006, the City has not retroactively reported all network infrastructure acquired by its governmental fund types.

Additions to and replacements of capital assets of business-type activities are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest from temporary investment of borrowed fund proceeds. No net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from plant accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of useful lives by asset type of follows:

Buildings and improvements	20-50 Years
Machinery and Equipment	5-30 Years
Water and sewer systems	20-100 Years
Infrastructure	30-90 Years

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)**

##### **5. Capital Assets (continued)**

###### **Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same in the government-wide statements.

##### **6. Other Assets**

In governmental funds, debt issuance costs are recognized as expenditures in the current period. For the government-wide and proprietary fund type financial statements, debt issuance costs are deferred and amortized over the term of the debt issue.

##### **7. Compensated Absences**

Under terms of employment, employees may earn compensatory time and are granted sick leave, severance pay and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested compensatory time, sick leave, severance pay and vacation pay are accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements and are payable with expendable available resources.

Payments for vested compensatory time, sick leave, severance pay and vacation pay will be made at rates in effect when the benefits are used. Accumulated vested compensatory time, sick leave, severance pay and vacation pay liabilities are determined on the basis of current salary rates and include salary related payments.

The City also provides postemployment health and dental care benefits for all eligible employees. Eligibility and benefit levels are based on contractual agreements with employee groups, City ordinances and employee benefit policies. Some employees may leave their accumulated severance to pay for their portion of health care premiums. The City contribution to postretirement health care approximates 75% of the year of retirement premium cost with the employee paying any balance due plus the cost of any dental benefit selected. The City's portion of health care cost is recognized as expenditure in the period premiums are paid. Funding for those costs is provided out of the current operating budget of the City. The contributions are financed on a pay as you go basis.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)**

##### **8. Long-term Obligations/Conduit Debt**

All long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term obligations consist primarily of notes and bonds payable and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debt (plus any premium) is reported as other financing sources and payments of principal and interest are reported as expenditures. The proprietary fund accounting is the same as it is in the government-wide statements.

For the government-wide and proprietary fund statements, issuance costs, bond premiums and discounts are deferred and amortized over the life of the issue using the effective interest method. Gains or losses on prior refundings are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The balance at year end for both premiums/discounts and gains/losses, as applicable, is shown as an increase or decrease in the liability section of the statement of net assets.

The City has approved issuance of industrial development revenue bonds (IDRB) for the benefit of private business enterprises. IDRB's are secured by mortgages or revenue agreements on associated projects of the business enterprises. The IDRB,s do not constitute indebtedness of the City. Accordingly, the bonds are not reported as liabilities in the financial statements.

##### **9. Claims and Judgments**

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the government funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in governmental fund financial statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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#### **D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)**

##### **10. Equity Classifications**

###### **Government-Wide Statements**

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding any unspent bond proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources, as they are needed.

###### **Fund Statements**

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled "designated". The balance of unreserved fund balance is labeled "undesignated", which indicates it is available for appropriation. Proprietary fund equity is classified the same as in the government-wide statements.

##### **11. Comparative data**

The basic financial statements include comparative data for the prior year for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in financial position and operations of these funds. This comparative data is not at the level of detail required for a presentation in conformity with general accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended December 31, 2005, from which the data was derived.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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#### A. Explanation of Certain differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “other long term assets that are not available to pay for current period expenditures and therefore are deferred in the funds”. The details of this difference are as follows:

Special Assessments	<u>\$3,195,227</u>
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Capital assets used in government funds are not financial resources and, therefore, are not reported in the funds.

Land	\$7,870,390
Buildings	22,037,727
Machinery and equipment	12,111,100
Infrastructure	14,368,653
Construction in progress	1,863,283
Less: Accumulated depreciation	<u>(12,702,243)</u>
Adjustment for capital assets	<u>\$45,548,910</u>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term-are reported in the statement of net assets.

General obligation debt	\$41,600,000
Lease revenue bonds	5,195,000
Deferred amounts for premiums	320,981
Unamortized debt issue costs	(235,145)
Compensated absences	1,325,374
Accrued interest	<u>642,649</u>
Combined adjustment for long-term liabilities	<u>\$48,848,859</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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#### B. Explanation of Certain differences between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government wide statement of activities. One element of that reconciliation explains that “revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds”. The details of this difference are as follows:

Special assessment levies	<u>\$1,580,648</u>
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Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental fund, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets”. The details of this difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds and notes	\$10,000,000
Principal repayments:	
General obligation debt	<u>13,820,000</u>
Net adjustment to decrease net changes	
In fund balances – total governmental	
Funds to arrive at changes in net	
Assets of governmental activities	<u>\$(3,820,000)</u>

Another element of that reconciliation states that “Governmental funds report the effects of issuance costs, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of the differences are as follows:

Debt issuance costs incurred	\$35,700
Premium received	(176,524)
Call Premium incurred	195,400
Amortization of issuance costs	(39,892)
Amortization of premium	<u>49,876</u>
Net adjustment to decrease net changes in fund	
balances-total governmental funds to arrive at	
changes in net assets of governmental activities	<u>\$64,560</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

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#### B. Explanation of Certain differences between the Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (continued)

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds". The details of this difference are as follows:

Compensated absences	\$76,305
Net Pension obligations	(129,381)
Loss on asset disposition	62,867
Accrued interest	<u>(58,146)</u>
Net adjustments to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$(48,355)</u>

Another element of that reconciliation states that "revenue in the governmental funds that provides current financial resources but have been previously recorded as revenue in the statement of activities". The details of this difference are as follows:

Special assessment collections	<u>\$1,388,116</u>
Net adjustments to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$1,388,116</u>

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### NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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#### A. BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note 1 C with the exception of encumbrances and tax equivalent from the water utility. Actual (Budgetary basis) expenditures presented reflect actual (GAAP) expenditures adjusted for expenditures liquidated under the prior period budget and encumbrances expected to be liquidated under the current period budget. Actual (budgetary basis) revenue present the tax equivalent from the water utility as tax revenue while the GAAP basis statements present this item as a transfer in.



# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

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#### **A. BUDGETARY INFORMATION (continued)**

A budget has been adopted for the general, debt service, library, capital outlay, equipment replacement, capital improvement, street improvement, sanitary sewer and water utility funds. Budgets have not been formally adopted for other funds.

The budgeted amounts presented include any amendments made during the year. The City may authorize transfers of budgeted amounts within departments. Transfers between departments and changes to the overall budget must be approved by a two-thirds vote of the common council. Supplemental appropriations during the year were not significant. Appropriations lapse at the end of the year unless specifically carried over. Carryovers to the following year were not material. Budgets are adopted at the function level of expenditure.

#### **B. DEFICIT BALANCES**

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year end. At December 31, 2006 the TIF Districts Fund had a deficit balance of \$4,569,471.

TIF District deficits are anticipated to be funded with future incremental taxes levied over the life of the districts, which is 27 years for TIF District #2 that was created before October 1, 1995, and 23 years for TIF Districts #3 & TIF District #4 created in 2005.

#### **C. LIMITATIONS ON THE CITY'S TAX LEVY**

As part of Wisconsin's Act 25 (2005), new legislation was passed that limits the city's tax levies. Generally, the City is limited to its prior tax levy dollar amount (excluding TIF districts), increased by the greater of the percentage change in the City's equalized value due to new construction, or 2%. Changes in debt service from one year to the next are generally exempt from this limit. The levy limit begins with the 2006 levy collected in 2006 and is set to expire after the 2006 levy.

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### **NOTE 4 - DETAILED NOTES ON ALL FUNDS**

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#### **A. CASH AND INVESTMENTS**

The City maintains a cash and investment pool that is utilized by all funds. Each fund's portion of this pool is displayed on the statement of net assets and balance sheet as cash and investments of the City. In addition, investments are separately held by several of the funds.

Deposits in each local and area bank are insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for non interest bearing accounts. The City's

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

#### A. CASH AND INVESTMENTS (continued)

bank accounts are also insured by the State of Wisconsin Deposit Guarantee Fund in the amount of \$400,000. However, due to the relatively small size of the Guarantee Fund in relationship to the total deposits covered and other legal implications, recovery of material principal losses may not be significant to the City. This coverage has not been considered in computing the insured or collateralized amounts.

Investments in the local government investment pool are covered under a surety bond issued by Financial Security Assurance, Inc. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool except U.S. Government and agency securities. The bond provides unlimited coverage on principal losses, reduced by FDIC and State of Wisconsin Deposit Guarantee Fund insurance.

The City maintains a collateral arrangement with its main bank to provide collateralization in excess (about 20%) of deposits maintained at the bank. The collateral is maintained at the Federal Reserve and the City receives monthly reports of the collateral in place. The collateral balance at December 31, 2006 was \$31,329,898.

Cash and investments as shown on the December 31, 2006 City of Franklin Statement of Net Assets are subject to the following risks:

	Carrying Value	Bank Balances	Risks
Cash and demand deposits	\$ 49,289,677	\$ 27,714,794	Custodial
U.S. treasuries and agencies	5,572,921	5,572,921	Credit and interest rate
Asset backed securities	2,092,557	2,092,557	Credit and interest rate
Corporate bonds	294,739	294,739	Credit, interest rate and concentration of credit
Local Government Investment Pool	<u>17,951,289</u>	<u>17,951,289</u>	Credit and interest rate
Total	<u>\$ 75,201,183</u>	<u>\$ 53,626,300</u>	

Reconciliation to the financial statements is shown below:

Primary Government:	
Unrestricted cash and investments	\$ 29,377,653
Restricted cash and investments	215,267
Per Statement of Fiduciary Net Assets	<u>45,608,263</u>
	<u>\$ 75,201,183</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

#### A. CASH AND INVESTMENTS (continued)

**Custodial Credit Risk** For deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to the City. As of December 31, 2006 \$1,359,027 of the City's total bank balances of \$27,256,340 was uninsured and uncollateralized and therefore exposed to custodial credit risk. For Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City does not have any investments that were exposed to custodial credit risks at December 31, 2006.

**Credit Risk** Credit risk is the risk that an issuer or other counterparty will not fulfill its obligation. As of December 31, 2006 the City's investments in treasuries, agencies and corporate bonds were rated Moody's Investor Service from AA3 to AAA with only 2.1% of the portfolio subject to credit risk in the lowest (AA3) rating. Higher rated corporate securities make up 26.3% and treasury and agency securities make up 66.1% of the portfolio subject to credit risk. Local Government Investment Pool is not rated and not subject to credit risk.

**Concentration of Credit Risk** Concentration of credit risk is the risk of loss attributed to a large investment position in a single issuer. As of the December 31, 2006 no issue other than the Local Government Investment Pool, treasury or agency securities had a position of greater than five percent of the portfolio.

**Interest Rate Risk** Interest rate risk is the risk that rising interest rates will have an adverse impact on the fair value of the investments in the portfolio. The longer the maturities in the portfolio the greater the risk of loss in portfolio value.

As of December 31, 2006 the City's investments were as follows:

Investment Type ( in thousands)	Fair Value	Investment Maturity in years		
		Less than 1	1 - 5	More than 5
Money Market	\$ 458,455	\$ 458,455	\$ -	\$ -
U.S. treasuries and agencies	5,572,921	550,481	4,904,692	117,748
Asset backed securities	2,092,557	-	2,092,557	-
Corporate bonds	294,739	224,636	70,103	-
Local Government Investment Pool	17,951,289	17,951,289	-	-
Total	<u>\$ 26,369,961</u>	<u>\$ 19,184,861</u>	<u>\$ 7,067,352</u>	<u>\$ 117,748</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### B. RECEIVABLES

Receivables consist of accounts, taxes and special assessments from citizens and others. Receivables are reported net of uncollectible amounts. The reserve for bad debts, principally for personal property taxes and a general valuation allowance, was \$34,938 at December 31, 2006. Other than special assessment receivables, all other receivables are expected to be collected within one year.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Property taxes receivable for the subsequent year are not earned and can not be used to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred and unearned revenue reported in the financial statements were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Governmental Funds:			
Property taxes receivable	\$ -	\$ 21,650,328	\$ 21,650,328
Special assessments not yet due	<u>3,195,227</u>	<u>-</u>	<u>3,195,227</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 3,195,227</u>	<u>\$ 21,650,328</u>	<u>\$ 24,845,555</u>

#### C. RESTRICTED ASSETS

##### Sewer Equipment Replacement Account

In accordance with the City's ordinance enacting a sewer user charge system and regulations of the Department of Natural Resources, the Sanitary Sewer Fund – an Enterprise Fund, incorporated an equipment replacement charge as a component of the rate structure to be used for significant mechanical equipment replacement as required by the Wisconsin Department of Natural Resources. Revenue generated from this charge are accumulated and used for replacement of certain equipment. The balance in this account at December 31, 2006 is \$215,267.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

#### D. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
<b>Governmental Activities</b>				
Capital assets not depreciated:				
Land	\$ 6,885,868	\$ 984,522	\$ -	\$ 7,870,390
Construction in progress	415,821	1,447,462	-	1,863,283
Total capital assets not depreciated	<u>7,301,689</u>	<u>2,431,984</u>	<u>-</u>	<u>9,733,673</u>
Capital assets depreciated:				
Buildings & improvements	21,288,949	748,778	-	22,037,727
Machinery & equipment	11,742,433	822,716	(454,049)	12,111,100
Infrastructure	11,998,351	2,370,302	-	14,368,653
Total capital assets depreciated	<u>45,029,733</u>	<u>3,941,796</u>	<u>(454,049)</u>	<u>48,517,480</u>
Less: Accumulated depreciation for:				
Buildings & improvements	4,309,083	505,919	-	4,815,002
Machinery & equipment	7,062,394	748,855	(391,182)	7,420,067
Infrastructure	262,826	204,348	-	467,174
Total accumulated depreciation	<u>11,634,303</u>	<u>1,459,122</u>	<u>(391,182)</u>	<u>12,702,243</u>
Net capital assets depreciated	<u>33,395,430</u>	<u>2,482,674</u>	<u>(62,867)</u>	<u>35,815,237</u>
Governmental Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 40,697,119</u>	<u>\$ 4,914,658</u>	<u>\$ (62,867)</u>	<u>\$ 45,548,910</u>

Under provisions of GASB 34 implementation of infrastructure assets prior to 2003 may be deferred until 2007, if necessary. The City of Franklin has elected to defer until 2007 the inclusion of prior infrastructure assets. The implication of this decision is capital assets and investment in capital assets net of related debt are lower than otherwise expected.

Depreciation expense was charged to functions as follows:

<b>Governmental Activities</b>	
General government	\$ 188,884
Public safety	594,894
Public works	487,833
Health & human services	3,054
Culture & recreation	178,987
Conservation & development	5,469
Total governmental activities depreciation expense	<u>\$ 1,459,121</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### D. CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Dispositions	Ending Balance
<b>Business-type Activities</b>				
Capital Assets not depreciated:				
Land	\$ 426,384	\$ -	\$ -	\$ 426,384
Construction in progress	453	565,974	-	566,427
Total capital assets not depreciated	<u>426,837</u>	<u>565,974</u>	<u>-</u>	<u>992,811</u>
Capital assets depreciated:				
Buildings & improvements	2,342,139	31,202	-	2,373,341
Machinery & equipment	1,887,905	42,906	(2,447)	1,928,364
Infrastructure	<u>96,067,431</u>	<u>3,959,726</u>	<u>-</u>	<u>100,027,157</u>
Total capital assets depreciated	<u>100,297,475</u>	<u>4,033,834</u>	<u>(2,447)</u>	<u>104,328,862</u>
Less: Accumulated depreciation for:				
Buildings & improvements	565,839	75,962	-	641,801
Machinery & equipment	1,132,838	103,897	(2,447)	1,234,288
Infrastructure	<u>13,926,698</u>	<u>1,219,234</u>	<u>-</u>	<u>15,145,932</u>
Total accumulated depreciation	<u>15,625,375</u>	<u>1,399,093</u>	<u>(2,447)</u>	<u>17,022,021</u>
Net capital assets depreciated	<u>84,672,100</u>	<u>2,634,741</u>	<u>-</u>	<u>87,306,841</u>
Business-type Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 85,098,937</u>	<u>\$ 3,200,715</u>	<u>\$ -</u>	<u>\$ 88,299,652</u>

Depreciation expense was charged to functions as follows.

Business-Type Activities:

Water	\$ 790,226
Sewer	<u>608,867</u>
	<u>\$ 1,399,093</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

#### E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The interfund receivables and payables at December 31, 2006 are as follows:

Receivable Fund	Payable Fund	Amount
Governmental funds:		
General	Water Utility	\$ 40,021
General	Sanitary Sewer	138,743
Subtotal - Fund Financial Statements		178,764
Less: Government-wide eliminations		-
Total internal balances - Government-Wide Statement of Net Assets		<u>\$ 178,764</u>

The principal purpose of these interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. In all cases amounts are repaid within one year.

For the statement of net assets, interfund balances owed within the governmental activities or business – type activities are netted and eliminated.

#### Long Term Advances

The debt service fund in 2005 advanced funds to TIF District #3 and TIF District #4. The amounts advanced were part of the proceeds of borrowing designed to enable the new TIF Districts to carry out their approved project plans. The debt service fund is charging the TIF Districts fund interest based upon the amount advanced at an interest rate based upon the interest rate incurred by the debt service fund on the borrowings. The advance will be repaid as the proportionate principal amounts in the debt service fund are due.

Receivable Fund	Payable Fund	Amount	Amounts not due within one year
Governmental funds:			
General Fund	TIF Districts	\$ 700,000	\$ 700,000
Debt service	TIF Districts	6,928,769	6,928,769
Less: Fund eliminations		<u>(7,628,769)</u>	
Total long-term advances - Government-Wide Statement of Net Assets		<u>\$ -</u>	

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### E. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (continued)

##### Interfund Transfers

Generally, transfers are used to (1) move revenue from the funds that collect them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund and (3) use unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers during the year ended December 31, 2006 were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Enterprise - Water Utility	\$ 775,518
	Enterprise - Sanitary Sewer	1,820
Debt Service	Capital Projects - Development	488,275
Special Revenue: Civic Celebrations	General	16,453
Capital Projects Funds:		
Capital Improvements	Capital Projects - Street Improvement	72,800
	Capital Projects - Development	1,037,077
	Capital Projects - Utility Improvement	<u>1,565,753</u>
Subtotal - Fund financial statements		3,957,696
Less: Fund eliminations		(3,180,358)
Less: Government-wide eliminations		<u>(2,748,073)</u>
Total transfers - Government-wide Statement of Activities		<u>\$ (1,970,735)</u>



**CITY OF FRANKLIN**  
**NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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**NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)**

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**F. LONG TERM OBLIGATIONS**

**General Obligation Debt**

Long-term liabilities for the year ended December 31, 2006 were as follows:

	Balance 12/31/05	Additions	Deletions	Balance 12/31/06	Amounts due within one year
<b>Governmental Activities</b>					
General obligation debt	\$ 32,900,000	\$ 10,000,000	\$ 1,300,000	\$ 41,600,000	\$ 2,350,000
Lease revenue debt	17,715,000	-	12,520,000	5,195,000	2,820,000
Unamortized premium	194,333	176,524	49,876	320,981	49,877
Sub-total	<u>50,809,333</u>	<u>10,176,524</u>	<u>13,869,876</u>	<u>47,115,981</u>	<u>5,219,877</u>
 Compensated absences					
Accrued vacation pay	296,792	707,313	658,098	346,007	346,007
Accrued severance pay	863,667	31,276	4,516	890,427	-
Accrued compensatory time	<u>88,610</u>	<u>182,416</u>	<u>182,086</u>	<u>88,940</u>	<u>88,940</u>
Total compensated absences	<u>1,249,069</u>	<u>921,005</u>	<u>844,700</u>	<u>1,325,374</u>	<u>434,947</u>
Government activities					
Long-term liabilities	<u>\$ 52,058,402</u>	<u>\$ 11,097,529</u>	<u>\$ 14,714,576</u>	<u>\$ 48,441,355</u>	<u>\$ 5,654,824</u>

The governmental activities compensated absences accrue to and are paid from the City's General Fund.

**Business-type Activities**

Compensated absences					
Accrued vacation pay	\$ 36,008	\$ 36,613	\$ 33,458	39,163	\$ 39,163
Accrued severance pay	58,807	7,555	-	66,362	-
Accrued compensatory time	<u>1,481</u>	<u>7,410</u>	<u>5,823</u>	<u>3,068</u>	<u>3,068</u>
Business-type activities					
Long-term liabilities	<u>\$ 96,296</u>	<u>\$ 51,578</u>	<u>\$ 39,281</u>	<u>\$ 108,593</u>	<u>\$ 42,231</u>

All general obligation notes and bonds payable are backed by the full faith and credit of the City. The notes and bonds will be retired by future property tax levies, special assessment collections and designated landfill revenue.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

#### F. LONG TERM OBLIGATIONS (continued)

Details of general obligation notes and bonds payable are as follows:

Type	Date of Issue	Interest Rate	Principal Payable	Interest Payable	Original Amount	Balance Outstanding 12/31
General obligation promissory notes						
	5/ 1/99	3.5-4.3	5/1/00-09	5/1&11/1	\$ 7,850,000	\$ 3,375,000
	5/15/01	4.25-4.60	3/ 1/02-11	3/1& 9/1	10,000,000	8,450,000
	8/15/05	3.75-3.90	3/ 1/07-15	3/1& 9/1	10,000,000	10,000,000
	1/1/06	3.75-3.90	3/ 1/09-11	3/1& 9/1	10,000,000	10,000,000
General obligation refunding bonds						
	4/15/01	4.3-5.40	3/ 1/02-21	3/1& 9/1	10,000,000	9,775,000
						<u>\$ 41,600,000</u>

Annual principal and interest payments to maturity on general obligation notes and bonds payable are as follows:

Year	Principal	Interest	Total	Balance Outstanding 12/31
2006				\$ 41,600,000
2007	\$ 2,350,000	\$ 1,726,985	\$ 4,076,985	39,250,000
2008 *	2,925,000	1,613,366	4,538,366	36,325,000
2009 *	5,600,000	1,439,247	7,039,247	30,725,000
2010 *	5,925,000	1,205,173	7,130,173	24,800,000
2011 *	7,880,000	918,510	8,798,510	16,920,000
2012 - 2016 *	10,620,000	2,638,946	13,258,946	6,300,000
2017 - 2021 *	6,300,000	859,507	7,159,507	-
	<u>\$ 41,600,000</u>	<u>\$ 10,401,734</u>	<u>\$ 52,001,734</u>	

The City's statutory debt limit and margin of indebtedness at December 31, 2006 are \$174,087,985 and \$132,487,985, respectively.

\* The City issued in January 2007 \$9,925,000 in general obligation bonds for the purpose of refinancing \$9,470,000 of general obligation bonds issued on 4/15/2001. The issues advanced refunded were all maturities due in 2012 to 2021. The new bonds are scheduled to mature in amounts of \$100,000 to \$1,200,000 per year on March 1 from 2008 to 2021 and bear interest rates of 3.80%, payable semi-annually on March 1 and September 1 of each year.

**CITY OF FRANKLIN**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006

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**NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)**

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**F. LONG TERM OBLIGATIONS (continued)**

\* The City also issued in January 2007 \$10,000,000 in taxable general obligation notes for its TIF District #3. The new notes are scheduled to mature in amounts of \$600,000 to \$6,195,000 per year on March 1 from 2008 to 2014 and bear interest rates of 4.95%, payable semi-annually on March 1 and September 1 of each year.

**Current Refunding**

The City issued in January 2006 \$10,000,000 in general obligation notes with and average interest rate of 3.92% to current refund \$9,770,000 of Lease Revenue Bonds with an average interest rate of 5.04%. The net proceeds of \$10,140,824 (after payment of \$35,700 in underwriting, insurance and other issuance costs) were used to call for prepayment on April 1 of 2006 \$9,770,000 of the CDA issued Redevelopment Lease Revenue Bonds.

The called Lease Revenue Bonds cash flow requirements from 2006 to 2011 the expected call date prior to the current refunding was \$11,875,155. The cash flow requirements on the general obligation notes issued will be \$11,726,250 from 2006 to 2011. The current refunding resulted in a present value economic gain of \$292,470.

**Lease Revenue Debt**

The Authority issued Redevelopment Lease Revenue Bonds for the purpose of financing a loan from the Authority to the City to finance project costs associated with the City's Tax Incremental District #2. The bonds are not general obligations of the Authority or the City, but are secured by the obligation of the City to make payments under a lease between the Authority and the City. The lease generally provides for payments by the City to the Authority in amounts equal to the principal and interest payments on the bonds on the dates such payments are due.

<u>Type</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Principal Payable</u>	<u>Interest Payable</u>	<u>Original Amount</u>	<u>Balance 12/31</u>
Redevelopment Lease Revenue Bonds						
	7/1/98	6.65-6.95	4/1/04-08	4/1&10/1	\$ 5,275,000	\$ 2,320,000
	7/1/98	3.90-5.20	4/1/99-08	4/1&10/1	18,145,000	<u>2,875,000</u>
						<u>\$ 5,195,000</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### F. LONG TERM OBLIGATIONS (continued)

Annual principal and interest payments to maturity on Redevelopment Lease Revenue Bonded Debt are as follows:

Year	Principal	Interest	Total	Balance 12/31
2006				\$ 5,195,000
2007	\$ 2,820,000	\$ 217,803	\$ 3,037,803	2,375,000
2008	2,375,000	69,606	2,444,606	-
	<u>\$ 5,195,000</u>	<u>\$ 287,409</u>	<u>\$ 5,482,409</u>	

#### Conduit Debt Obligations

Twelve series of Industrial Revenue Bonds originally issued with an aggregate principal amount of \$137,985,000 are outstanding with a December 31, 2006 balance of \$130,264,746.

#### G. NET ASSETS/FUND BALANCES

##### Governmental Activities

Government activities net assets reported on the government-wide statement of net assets at December 31, 2006 include the following:

Invested in capital assets, net of related debt	
Land	\$ 7,870,390
Construction in process	1,863,283
Other capital assets, net of accumulated depreciation	35,815,237
Less: related long term debt outstanding	(39,875,436)
Total invested in capital assets	<u>5,673,474</u>
Restricted for:	
Debt service	2,824,089
Library	263,924
Emergency medical services	11,452
Utility improvement	478,801
Development	3,484,891
Donations	114,269
Grants	117,610
Total restricted	<u>7,295,036</u>
Unrestricted	<u>10,876,066</u>
Total governmental activities net assets	<u>\$ 23,844,576</u>

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 4 - DETAILED NOTES ON ALL FUNDS (continued)

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#### G. NET ASSETS/FUND BALANCES (continued)

##### Governmental Fund Balances

Governmental fund balances reported on the fund financial statements at December 31, 2006 include the following:

Reserved - Major funds:	
General Fund - Inventories, prepaid items and encumbrances	\$ 41,870
General Fund - Advances to other funds	700,000
Debt Service Fund - subsequent year debt service	3,466,738
Debt Service Fund - advances to other funds	6,928,769
TIF Districts Fund - contractual obligations	1,169,000
Reserved - Non Major funds:	
Special Revenue Funds:	
Library services including prepaid item	263,924
Emergency medical services, donations and grants	243,331
Capital Project Funds:	
Equipment replacement - encumbrances	600,000
Capital Improvement - contractual obligations & encumbrances	763,000
Development	3,484,891
Utility improvement	478,801
Total reserved	<u>\$ 18,140,324</u>
Unreserved Major Fund - General Fund	
Designated for working capital	\$ 3,430,000
Designated for subsequent year expenditures	1,050,000
Undesignated	1,799,964
Total General Fund	<u>6,279,964</u>
Unreserved Major Fund - TIF Districts Fund	
Undesignated (Deficit)	<u>(5,738,471)</u>
Unreserved Non Major funds:	
Special Revenue funds	
Designated for master plan activities	189,395
Designated for civic celebration activities	105,425
Total Special Revenue funds	<u>294,820</u>
Capital project funds:	
Designated for Capital Outlay	146,325
Designated for Equipment Replacement	1,582,596
Designated for Capital Improvement	2,651,570
Designated for Street Improvement	378,337
Total Capital Project Funds	<u>4,758,828</u>
Total Unreserved Funds	<u>\$ 5,595,141</u>

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 5 – OTHER INFORMATION**

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#### **A. DEFINED BENEFIT PENSION PLANS**

##### **Wisconsin Retirement System**

All eligible protective City of Franklin employees participate in the Wisconsin Retirement System ("System"), a cost-sharing multiple-employer defined benefit public employee retirement system ("PERS"). All such permanent employees expected to work over 600 hours a year are eligible to participate in the System. Covered employees in the general category are required by statute to contribute 5.9% of their salary (5.0% for protective occupations with social security, and 3.3% for protective occupations without social security) to the plan.

Employers may make these contributions to the plan on behalf of the employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for employees covered by the System for the year ended December 31, 2006 was \$6,673,017; the employer's total payroll was \$11,900,447. The total required contribution paid entirely by the employer for the year ended December 31, 2006 was \$1,234,508 or 18.5% of covered payroll. Of the total required contribution, 100 percent was contributed for the current year. Total contributions for the years ended December 31, 2005 and 2004 were \$1,156,827 and \$1,089,239, respectively, equal to the required contributions for each year.

The System provides protective employees who retire at or after age 53 with 25 years or more of service or age 54 with less than 25 years of service are entitled to receive retirement benefits. Protective employees may retire at age 50 and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service and (3) a formula factor. Final Average Earnings is the average of the protective employee's three highest year's earnings. Protective employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefits. For employees beginning participation after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of the Wisconsin Statutes. The System issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 5 – OTHER INFORMATION (continued)**

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#### **A. DEFINED BENEFIT PENSION PLANS (continued)**

##### **Public Works Employees Pension Plan**

###### **Plan Description**

The City is also a participant in the City of Franklin Public Works Employees' Pension Plan, a non-contributory single employer defined benefit pension plan covering eligible public works employees. The assets of this Plan are administered by Principal Life Insurance Company. An annual financial report may be obtained by writing to the plan administrator at Principal Financial Group, P.O. Box 9693, Des Moines, IA 50306-9396.

Employees attaining the age of 60 are entitled to annual benefits of 1.98% of average compensation multiplied by the number of complete years of service subsequent to January 1, 1956. Average compensation is defined as the monthly total pay plus salary deferrals, compensation and overtime received for the three consecutive years out of the ten latest years which gives the highest average. Employees may retire early and receive reduced benefits at age 55 with at least ten years of service.

Disability benefits equivalent to expected benefits at normal retirement date are paid until normal retirement date, death or recovery. If an active employee dies, his or her beneficiary receives a lump-sum cash payment equal to the participant's accumulation at date of death or an annuity benefit deferred until participant's earliest retirement date.

If an employee terminates his or her employment with the City, the employee has the option of accepting either normal retirement benefits at normal retirement date, or a lump-sum cash payment of participant's vested accumulations. An employee becomes 50% vested after five years of service and 100% vested after ten years.

Employees do not make pension contributions. The City contributes all amounts necessary to fund the pension plan, using the aggregate actuarial cost method.

###### **Funding Policy**

The City's funding policy has been to provide yearly contributions at actuarially determined rates that, expressed as a percentage of covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

During the year ended December 31, 2006, contributions totaling \$273,116 were made in accordance with contribution requirements determined by an actuarial valuation of the pension plan as of January 1, 2006. Employer contributions amount represented 21.8% of current year covered payroll.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

### NOTE 5 – OTHER INFORMATION (continued)

#### A. DEFINED BENEFIT PENSION PLANS (continued)

##### Public Works Employees Pension Plan (continued)

##### Annual Pension Cost

For 2006, the City's annual pension cost of \$273,116 for the pension plan was less than the City's actual contributions of \$402,497. The required contribution was determined during the January 1, 2006 actuarial valuation using the aggregate actuarial cost method. The remainder fully funded the 2005 contribution.

The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. Significant actuarial assumptions include: (a) a rate of return on the investment of present and future assets ranging from 5.0% to 7.0% compounded annually, (b) projected salary increases of 2.00% per year compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 1.88% to 5.10% per year, depending on age, attributable to seniority/merit. The assumptions did not include post retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period.

#### Three Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2006	\$ 273,116	147%	\$ -
12/31/2005	288,381	55%	129,381
12/31/2004	204,665	100%	-

#### Three Year Trend Information

(A)	(B)	(C)	(D)	(E)	(F)
Actual Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) - Aggregate	Unfunded AAL (UAAL) [(B)-(A)]	Funded Ratio [(A)/(B)]	Covered Payroll
1/1/2006	\$ 2,999,953	\$ 2,999,953	\$ -	100%	\$ 1,250,874
1/1/2005	2,929,045	3,058,426	129,381	96%	1,267,823
1/1/2004	2,563,079	2,563,079	-	100%	1,064,464

There were no significant changes in actuarial assumptions during the valuation year ended January 1, 2006.



# **CITY OF FRANKLIN**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2006

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### **NOTE 5 – OTHER INFORMATION (continued)**

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#### **B. DEFINED CONTRIBUTION PLAN**

Based on City ordinances all eligible City of Franklin non-protective employees (except public works employees) participate in the City of Franklin Defined Contribution Plan (the "Plan"). The Plan assets are administered by the Principal Life Insurance Company.

Employees after completing six months of service with the City are eligible to participate. The Plan requires the City to make periodic contributions to each participant's account equal to 10% of such participant's annual compensation. Employees may but are not required to make contributions. A participant's accrued benefit for City contributions is 100% vested and non forfeitable upon death, normal retirement, early retirement or permanent and total disability as defined in the Plan. If employment is terminated for any other reason, each participant's accrued benefit vests at various percentages, based on years of service. During 2006, the City made the required contribution amounting to \$353,890, or 10% of covered payroll and employees made \$6,616 in additional voluntary contributions to the plan. The City may make amendments to the Plan.

#### **C. POST RETIREMENT HEALTH CARE BENEFITS**

The City provides to longer term employees certain health care benefits at a reduced cost during the period from their normal retirement date until they reach age 65. The cost of this retiree health care benefit is recognized as expenditures when premiums are due. For 2006, 17 retired employees and their dependents received this benefit at a cost to the City of approximately \$121,100.

#### **D. CONTINGENCIES AND COMMITMENTS**

From time to time the City is party to various claims and legal proceedings. Although the outcome of such matters is not presently determinable, it is the opinion of City management and the City attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the City's financial position or results of operations.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

The City receives impact fees for new development projects. The fees are to be used to fund specific projects within a specific period of time. In the event the projects are not completed or the time period elapses, the City will be required to refund the impact fees to owners of property that the fees were originally charged.

The City has no material outstanding contractual commitments relating to various Public Works projects and equipment purchases at December 31, 2006.

# CITY OF FRANKLIN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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### NOTE 5 – OTHER INFORMATION (continued)

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#### E. CONTINGENCIES AND COMMITMENTS (continued)

Funding for the operating budget of the City comes from many sources, including property taxes, grants and aids from other units of government, user fees, fines and permits and other miscellaneous revenue. The State of Wisconsin provides a variety of aid and grant programs that benefit the City. Those aid and grant programs are dependent on continued approval and funding by the Wisconsin governor and legislature, through their budget process. The State of Wisconsin is currently experiencing budget problems and is considering numerous alternatives including reducing aid to local governments. Any changes made by the State to funding or eligibility of local aid programs could have a significant impact on the future operating results of the City.

#### F. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, natural disasters, and workers' compensation claims that the City carries commercial insurance. No significant reductions in insurance coverage occurred for any risk of loss in the past year, and settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The City also offers a group medical and dental insurance plan to employees for which the City is self-insured. This activity is accounted for in the City's Self Insurance Internal Service Fund. Group medical and dental costs are charged to City departments and retirees participating in the program. A third party administrator handles claims payments. The City carries stop loss insurance for losses in excess of \$50,000 per year per individual. Liabilities are reported when it is probable that loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported ("IBNR"). Changes in the balance of claims payable for the three years ended December 31, 2006 are as follows:

	<u>Beginning of Year</u>	<u>Changes in Estimates</u>	<u>Claims Payments</u>	<u>End of Year</u>
2006	\$ 366,000	\$ 2,746,730	\$ 2,716,730	\$ 396,000
2005	359,500	2,618,903	2,612,403	366,000
2004	294,500	2,248,233	2,183,233	359,500